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Non-ticketing airline revenue rises 48%

By Ven Sreenivasan, Business Times - Singapore

This article is based upon a report issued by IdeaWorks.

US carriers are most aggressive at chasing such ancillary income

(SINGAPORE) With ticket prices and yields still under pressure despite better operating conditions, airlines have increasingly turned to ancillary revenue for profit.

Figures from travel technology giant Amadeus and airline consultancy IdeaWorks show that ancillary receipts - for everything from baggage check-in and priority boarding to in-flight meals - grew a hefty 48 per cent last year.

An analysis of 2009 financial filings by 96 airlines showed that ancillary revenue increased 3.32 billion euros (\$5.87 billion) from 2008, to 11 billion euros last year.

'The ancillary revenue tidal wave continued in 2009 with more carriers disclosing millions - and billions - in ancillary receipts in financial reports,' says the Amadeus Guide to Ancillary Revenue by IdeaWorks. 'The 43 per cent increase over 2008 also reflects new ala carte fees and commission-based services.'

This includes revenue from baggage fees, on-board food, commission from the sale of hotel accommodation, car rentals and travel insurance through airline websites, and partner revenue generated by frequent flier programmes.

And with the unbundling of products and services continuing, ancillary sales are set to keep rising.

It presents a huge revenue opportunity for airlines, with margins in the region of 95 per cent, the report said.

The trend represents a paradigm shift, said John Chapman, vice-president of Amadeus Asia Pacific's airline group.

The report found that US airlines were the most aggressive in chasing ancillary revenue, while Asian legacy carriers - especially premium operators such as Singapore Airlines - are at the other end of the spectrum, showing reluctance to raise money this way.

But Australian carrier Qantas has no qualms. Its ancillary revenue rocketed 70 per cent from 2008 to US\$960 million - or US\$25 per passenger - last year. Much of this came from frequent flyer tie-ups with credit card operators.

Mr Chapman said: 'Typically, Asian full service carriers are very protective over their brand and service image, and accordingly have been slower and more cautious in launching ancillary service programmes.

'Many Asian travellers place a high value on extra services, and regard them as an essential part of the travel experience. In most cases, Asian carriers are so far focusing on offering tangible value-added services, such as pre-reserved seating or preferred exit row seats. An example is Singapore Airlines who introduced a \$50 fee for reserving exit row seats in 2009.'

Non-ticketing revenue is particularly important for budget carriers - and the likes of AirAsia and Tiger Airways have been among the most aggressive in chasing it.

The Amadeus report shows that Tiger emerged tops among Asia-Pacific carriers for a second year, raking in the highest proportion of ancillary revenue regionally. It was placed fifth worldwide, with 19.4 per cent of overall revenue coming from ancillary services.

AirAsia was ranked 10th worldwide, with 13.1 per cent of its overall revenue coming from ancillary services, as it worked with Amadeus to implement Amadeus Ticketless Access.

Amadeus has been a market leader in the development and implementation of new technologies and services to tap ancillary services.

'We recently launched a solution that enables airlines to sell ancillary services through travel agencies as well as other direct sales channels, and we expect increased demand for this solution as Asian carriers experiment further with unbundling their services,' Mr Chapman said.

The full report will be available in the autumn 2010 release of the Amadeus Guide to Ancillary Revenue by IdeaWorks.